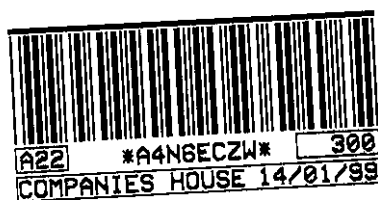


XENON NETWORK SERVICES LIMITED
(formerly XENON COMPUTER SYSTEMS
LIMITED)

Report and Financial Statements

30 June 1998

Deloitte & Touche
201 Deansgate
Manchester
M60 2AT



XENON NETWORK SERVICES LIMITED
(formerly XENON COMPUTER SYSTEMS LIMITED)

REPORT AND FINANCIAL STATEMENTS 1998

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XENON NETWORK SERVICES LIMITED
(formerly XENON COMPUTER SYSTEMS LIMITED)

REPORT AND FINANCIAL STATEMENTS 1998

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

B Tkachuk	(appointed 13 February 1998)*
S S King	(resigned 13 February 1998)
J L Pickup	(resigned 13 February 1998)
S J Antrum	(resigned 13 February 1998)
I P Johnson	(resigned 13 February 1998)
K A Jones	(resigned 9 June 1998)
F Noon	
M Ray	(appointed 13 February 1998)*
D Southern	
E Weremiuk	
G Wragg	

* B Tkachuk and M Ray are non-executive directors.

SECRETARY

D Southern

REGISTERED OFFICE

Anchorage Court
Caspian Road
Atlantic Office Park
Altrincham
Cheshire
WA14 5HH

BANKERS

National Westminster plc
Knightsbridge Corporate Business Centre
180 Brompton Road
Knightsbridge
London
SW3 1HL

SOLICITORS

Addleshaw Booth & Co
100 Barbirolli Square
Manchester
M2 3AB

AUDITORS

Deloitte & Touche
Chartered Accountants
201 Deansgate
Manchester
M60 2AT

XENON NETWORK SERVICES LIMITED
(formerly XENON COMPUTER SYSTEMS LIMITED)

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the six months ended 30 June 1998.

ACTIVITIES

The principal activity of the company is the supply, maintenance and servicing of computer equipment.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The directors consider the performance in the six months ended 30 June 1998 to be satisfactory. Although the six months record a loss, during the period from acquisition to 30 June 1998 the company recorded an operating profit of £19,329. Following the acquisition by Viglen the directors feel the prospects for the company are greatly enhanced by gaining direct access to the Viglen customer base and by the additional support of a plc in large tender situations.

RECAPITALISATION

During the period the company has been recapitalised by the injection of £399,200 in cash by the ultimate parent company to purchase 49,900 ordinary shares of £1 each.

CHANGE OF OWNERSHIP

On 13 February 1998, the company was sold by Datrontech plc to Viglen Technology plc, the new ultimate parent company.

CHANGE OF NAME

On 24 June 1998, the company changed its name from Xenon Computer Systems Limited to Xenon Network Services Limited, the current name.

DIVIDENDS AND TRANSFERS TO RESERVES

The directors do not propose to pay a dividend for the period (1997: £Nil). The loss for the period of £55,377 (1997 - £85,995) has been transferred from reserves.

FIXED ASSETS

The movements in fixed assets during the year is shown in note 8 to the accounts.

DIRECTORS

The directors of the company who served during the year are shown on page 1.

None of the directors had any interest in the share capital of the company. The directors interests in the shares of the ultimate parent company, Viglen Technology plc, are disclosed in the accounts of that company.

YEAR 2000

The company has recognised the potential issues arising from the Year 2000.

A working party has been established to identify and resolve issues relating to the Year 2000. The extent of the total cost involved to ensure all relevant systems are Year 2000 compliant has not yet been fully quantified but is not expected to be significant.

XENON NETWORK SERVICES LIMITED
(formerly XENON COMPUTER SYSTEMS LIMITED)

DIRECTORS' REPORT

AUDITORS

Deloitte & Touche replaced BDO Stay Hayward as auditors during the year. A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



Secretary

29th October 1998

XENON NETWORK SERVICES LIMITED
(formerly XENON COMPUTER SYSTEMS LIMITED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



Chartered Accountants

Deloitte & Touche
(P.O. Box 500)
201 Deansgate
Manchester M60 2AT

Telephone: National 0161 832 3555
International + 44 161 832 3555
Fax (Gp. 3): 0161 829 3800
DX 14324 - Manchester 1 Exchange

AUDITORS' REPORT TO THE MEMBERS OF

XENON NETWORK SERVICES LIMITED **(formerly XENON COMPUTER SYSTEMS LIMITED)**

We have audited the financial statements on pages 6 to 14 which have been prepared under the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 June 1998 and of its loss for the six months then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants and Registered Auditors

5 November 1998

XENON NETWORK SERVICES LIMITED
(formerly **XENON COMPUTER SYSTEMS LIMITED**)

PROFIT AND LOSS ACCOUNT
Six months ended 30 June 1998

	Note	Total Six months ended 30 June 1998 £	Continuing operations year ended 31 December 1997 £	Discontinued operations year ended 31 December 1997 £	Total year ended 31 December 1997 £
TURNOVER	2	3,549,680	7,428,593	2,056,898	9,485,491
Cost of sales		2,211,133	4,603,675	943,502	5,547,177
GROSS PROFIT		1,338,547	2,824,918	1,113,396	3,938,314
Administrative expenses		1,362,927	3,114,429	878,188	3,992,617
OPERATING (LOSS)/PROFIT	5	(24,380)	(289,511)	235,208	(54,303)
Interest receivable and similar income	3	3,204			41
Interest payable and similar charges	4	(34,201)			(42,173)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(55,377)			(96,435)
Taxation	7	-			10,440
RETAINED LOSS FOR THE FINANCIAL PERIOD	15	(55,377)			(85,995)

All recognised gains and losses for both periods are included in the profit and loss account.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	Six months ended 30 June 1998 £	Year ended 31 December 1997 £
Loss for the financial period	(55,377)	(85,995)
New share capital subscribed	399,200	-
Net addition to shareholders funds	343,823	(85,995)
Opening shareholders' funds	(268,401)	(182,406)
	75,422	(268,401)

XENON NETWORK SERVICES LIMITED
(formerly **XENON COMPUTER SYSTEMS LIMITED**)

BALANCE SHEET
30 June 1998

	Note	30 June 1998 £	31 December 1997 £
FIXED ASSETS			
Tangible assets	8	270,961	309,695
CURRENT ASSETS			
Stock	9	53,247	82,886
Debtors	10	1,609,650	2,082,877
Cash at bank		171,025	-
		<u>1,833,922</u>	<u>2,165,763</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	11	<u>(1,901,068)</u>	<u>(2,719,398)</u>
NET CURRENT LIABILITIES		<u>(67,146)</u>	<u>(553,635)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		203,815	(243,940)
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	12	(24,377)	(24,461)
DEFERRED INCOME		<u>(104,016)</u>	<u>-</u>
		<u>75,422</u>	<u>(268,401)</u>
CAPITAL AND RESERVES			
Called up share capital	13	50,000	100
Share premium account	15	349,300	-
Revaluation reserve	15	8,416	8,416
Profit and loss account	15	<u>(332,294)</u>	<u>(276,917)</u>
EQUITY SHAREHOLDERS FUNDS		<u>75,422</u>	<u>(268,401)</u>

These financial statements were approved by the Board of Directors on
Signed on behalf of the Board of Directors

29th October 1998


Director

XENON NETWORK SERVICES LIMITED
(formerly XENON COMPUTER SYSTEMS LIMITED)

NOTES TO THE ACCOUNTS
Six months ended 30 June 1998

1. ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, and are in accordance with applicable accounting standards. The following accounting policies, which have not changed in the period, have been applied:

Turnover

Turnover represents sales to external customers at invoiced amounts less value added tax.

Deferred income

Deferred income represents services invoiced in advance, generally for maintenance, which are apportioned over the period of the contracts.

Depreciation

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all fixed assets, except freehold land and buildings, over their expected useful lives. It is calculated at the following rates:

Computer equipment	-	33% p.a.
Fixtures and fittings	-	10% p.a.
Motor vehicles	-	25% p.a.

No depreciation is provided on freehold buildings since it is the company's practice to maintain such properties in a continual state of sound repair and any depreciation would not be material. Provision will be made should any permanent diminution in value of these properties occur, such provision being based on the prices prevailing at the time of their acquisition or subsequent valuation.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

Deferred taxation

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes, to the extent that it is probable that a liability or asset will crystallise.

Leases and hire purchase contracts

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balances of capital repayments outstanding. The capital part reduces the amounts payable to the lessor. All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Hire purchase contracts are treated identically to finance leases.

Pension costs

Contributions to the company's defined contribution pension scheme and employee personal pension schemes are charged to the profit and loss account in the period in which they become payable.

XENON NETWORK SERVICES LIMITED
(formerly XENON COMPUTER SYSTEMS LIMITED)

NOTES TO THE ACCOUNTS
Six months ended 30 June 1998

1. ACCOUNTING POLICIES (continued)

Foreign currency

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Any differences are taken to the profit and loss account.

Basis of preparation

The directors have received confirmation from Viglen Technology plc that continued financial support will be provided for at least 12 months from the date of approval of these financial statements. As a result the directors believe that the company can continue in operational existence and the accounts have therefore been prepared on the going concern basis.

2. TURNOVER

The turnover and profit before taxation is wholly attributable to one activity, the supply of computer equipment and services. The company's markets are located primarily in the United Kingdom.

The discontinued operations in the prior year related to training.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	Six months ended 30 June 1998 £	Year ended 31 December 1997 £
Bank interest	3,204	41

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Six months ended 30 June 1998 £	Year ended 31 December 1997 £
On bank overdraft	6,046	31,449
On bank loans repayable within five years by instalments	-	1,051
Inter company loan interest	23,137	-
On hire purchase contracts and finance leases terminating within five years	1,713	6,862
Other interest	3,305	2,811
	34,201	42,173

XENON NETWORK SERVICES LIMITED
(formerly **XENON COMPUTER SYSTEMS LIMITED**)

NOTES TO THE ACCOUNTS
Six months ended 30 June 1998

5. OPERATING PROFIT

	Six months ended 30 June 1998 £	Year ended 31 December 1997 £
Operating profit is stated after charging:		
Depreciation		
- owned fixed assets	70,795	253,535
- assets held under finance leases and hire purchase contracts	11,825	24,959
Operating lease rentals		
- plant and machinery	125,196	339,890
- land and buildings	67,224	217,770
Auditors' remuneration	8,000	8,000

6. STAFF COSTS AND DIRECTORS'

	Six months ended 30 June 1998 £	Year ended 31 December 1997 £
Staff costs:		
Wages and salaries	855,146	2,505,075
Social security costs	90,619	250,508
Other pension costs	22,705	42,454
	968,470	2,798,037
	No.	No.
Average number of employees	87	120
	£	£
Directors emoluments	122,747	321,292
Emoluments of highest paid director	40,000	65,749
Contribution to defined contribution pension scheme - total	10,147	13,714
in respect of highest paid director	3,217	4,348
	No.	No.
Number of directors:		
• who are members of a defined benefit scheme	Nil	Nil
• who are members of a money purchase scheme	4	4

XENON NETWORK SERVICES LIMITED
(formerly **XENON COMPUTER SYSTEMS LIMITED**)

NOTES TO THE ACCOUNTS
Six months ended 30 June 1998

7. TAXATION

	Six months ended 30 June 1998 £	Year ended 31 December 1997 £
United Kingdom corporation tax at 33% (1997 - 33%) based on loss for the period	-	2,678
Adjustments in respect of prior periods	-	7,762
	-	10,440

The tax credit for the year has been reduced by £8,000 (1997 - £9,644) in respect of timing differences for which no deferred tax has been provided, and by £9,000 (1997 - £10,633) in respect of items not allowable for corporation tax.

8. TANGIBLE FIXED ASSETS

	Freehold land and buildings £	Motor vehicles £	Fixtures, fittings and computer equipment £	Total £
Cost or valuation				
At 1 January 1998	35,000	97,908	1,051,509	1,184,417
Additions	-	25,332	41,269	66,601
Disposals	-	(31,750)	(21,280)	(53,030)
At 30 June 1998	35,000	91,490	1,071,498	1,197,988
Accumulated depreciation				
At 1 January 1998	-	38,829	835,893	874,722
Charge for the period	-	11,825	70,795	82,620
Disposals	-	(17,426)	(12,889)	(30,315)
At 30 June 1998	-	33,228	893,799	927,027
Net book value				
At 30 June 1998	35,000	58,262	177,699	270,961
At 31 December 1997	35,000	59,079	215,616	309,695

The net book amount of tangible fixed assets includes an amount of £58,263 (1997 - £61,442) in respect of assets held under hire purchase contracts.

The freehold land and buildings were professionally revalued at open market value by Chesterton, independent property consultant surveyors and valuers, in August 1993. The directors are of the opinion that this value has not materially changed. The original cost of the property was £26,584. All other assets are stated at cost.

XENON NETWORK SERVICES LIMITED
(formerly **XENON COMPUTER SYSTEMS LIMITED**)

NOTES TO THE ACCOUNTS
Six months ended 30 June 1998

9. STOCKS

	Six months ended 30 June 1998 £	Year ended 31 December 1997 £
Finished goods	53,247	82,886

10. DEBTORS

	Six months ended 30 June 1998 £	Year ended 31 December 1997 £
Trade debtors	1,326,470	1,271,451
Amounts owed by parent undertaking	71,057	286,357
Amounts owed by fellow subsidiary undertakings	-	342,491
Other debtors	6,298	17,707
Prepayments and accrued income	205,265	127,075
Corporation tax recoverable	560	37,796
	<u>1,609,650</u>	<u>2,082,877</u>

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Six months ended 30 June 1998 £	Year ended 31 December 1997 £
Bank overdraft	-	564,028
Trade creditors	646,028	1,147,967
Amounts owed to parent undertaking	371,757	-
Group tax relief payable	-	21,071
Social security and other taxes	178,207	175,826
Accruals	367,026	405,590
Deferred income	311,578	376,798
Obligations under finance leases and hire purchase agreements	26,472	28,118
	<u>1,901,068</u>	<u>2,719,398</u>

XENON NETWORK SERVICES LIMITED
(formerly **XENON COMPUTER SYSTEMS LIMITED**)

NOTES TO THE ACCOUNTS
Six months ended 30 June 1998

12. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	Six months ended 30 June 1998 £	Year ended 31 December 1997 £
Obligations under finance leases and hire purchase contracts	24,377	24,461
Obligations under finance leases and hire purchase contracts are due as follows:		
	Six months ended 30 June 1998 £	Year ended 31 December 1997 £
Within 1 - 2 years	16,090	17,871
Within 2 - 5 years	8,287	6,590
	24,377	24,461

13. CALLED UP SHARE CAPITAL

	Six months ended 30 June 1998 £	Year ended 31 December 1997 £
50,000 ordinary shares of £1 each authorised, allotted and fully paid	50,000	100

During the period 49,900 shares with a nominal value of £49,900 were issued for a consideration of £399,200.

14. OPERATING LEASES

The company has the following annual operating lease commitments which expire:

	30 June 1998		31 December 1997	
	Land and buildings £	Other £	Land and buildings £	Other £
Within one year	7,500	90,517	91,458	100,419
Between one and five years	116,951	131,848	66,450	206,503
	124,451	222,365	157,908	306,922

XENON NETWORK SERVICES LIMITED
(formerly **XENON COMPUTER SYSTEMS LIMITED**)

NOTES TO THE ACCOUNTS
Six months ended 30 June 1998

15. RESERVES

	Share premium account £	Revaluation reserve £	Profit and loss account £	Total £
At 1 January 1998	-	8,416	(276,917)	(268,501)
Transfer from profit and loss account of the period	-	-	(55,377)	(55,377)
Premium on issue of shares (nominal value £49,900)	349,300	-	-	349,300
At 30 June 1998	<u>349,300</u>	<u>8,416</u>	<u>(332,294)</u>	<u>25,422</u>

16. PENSION SCHEME

The company operates a defined contribution pension scheme and also contributes to employee personal pension schemes. The assets of these schemes are held separately from those of the company in independently administered funds. The pension cost charge represents contributions payable to the funds, and amounted to £22,705 for the period (1997 - £42,454).

17. CASH FLOW STATEMENT

Under Financial Reporting Standard 1 (revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly-owned subsidiary undertaking of a company registered in England which includes a cash flow statement in its accounts.

18. ULTIMATE PARENT COMPANY

At 30 June 1998 the company's ultimate parent company was Viglen Technology plc, a company registered in England.

On 13 February 1998 Viglen Technology plc, a company registered in England acquired the entire issued share capital of the company and became the company's new ultimate holding company. Viglen Technology plc, has informed the company that it has undertaken to continue to provide such financial support as the company requires for its continued operations.

Copies of Viglen Technology plc accounts are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

19. RELATED PARTIES

During the period, the company entered into transactions with Datrontech plc, Xenon Training Limited and Summit Peripherals Limited, who were all related parties by virtue of the fact that they were under the common control of Datrontech plc at the start of the period.

The purchases made from these companies in the period totalled £96,283, and the balance owing to them at the period end was £7,324.

The sales made to these companies in the period totalled £34,736, and the balance owed by them at the period end was £15,780.

All the transactions were carried out on an arms length basis.

ADDITIONAL INFORMATION

The additional information on pages 16 and 17 has been prepared from the accounting records of the company. While it does not form part of the statutory financial statements, it should be read in conjunction with them and the auditors' report thereon.

XENON NETWORK SERVICES LIMITED
(formerly XENON COMPUTER SERVICES LIMITED)

DETAILED PROFIT AND LOSS ACCOUNT
for the period ended 30 June 1998

	Six months ended 30 June 1998		Year ended 31 December 1997	
	£	£	£	£
Sales and services		3,549,680		9,485,491
Cost of sales				
Opening stock	82,886		199,206	
Computer hardware for resale	1,383,647		2,803,086	
Software for resale	270,722		600,395	
Subcontract maintenance	44,485		106,207	
Subcontract services	72,274		218,774	
Maintenance consumables	125,087		270,661	
Engineering wages and salaries	285,279		1,007,125	
Course materials & refreshments	-		424,609	
	2,264,380		5,630,063	
Less: Closing stock	(53,247)		(82,886)	
		2,211,133		5,547,177
Gross profit		1,338,547		3,938,314
Administrative expenses				
Salaries commissions & NIC	506,688		1,663,470	
Staff pension scheme	11,509		28,740	
Directors remuneration	141,797		281,660	
Directors pension scheme	11,196		13,714	
Directors insurance - Key man	1,747		-	
Medical benefits	839		1,019	
Travel, accommodation and motor expenses	116,856		311,607	
Leasing charges	125,196		339,890	
Freight and packing	44,049		113,044	
Printing, stationery and postage	13,892		58,814	
Marketing	14,353		102,087	
Equipment repair	3,650		10,848	
Building repairs	434		7,712	
Rent and rates	89,826		281,070	
Heat and light	9,753		28,777	
Carried forward	1,091,785	1,338,547	3,242,452	3,938,314

XENON NETWORK SERVICES LIMITED
(formerly XENON COMPUTER SERVICES LIMITED)

DETAILED PROFIT AND LOSS ACCOUNT
for the period ended 30 June 1998

		Six months ended 30 June 1998		Year ended 31 December 1997
	£	£	£	£
Brought forward	1,091,785	1,338,517	3,242,452	3,938,314
Administration expenses (continued)				
Insurance	12,936		28,965	
Telephone and telex	55,272		132,455	
Entertaining	3,923		8,265	
Course and conference fees	12,070		32,173	
General expenses	32,693		95,763	
Agency fees	21,551		66,871	
Audit and accountancy	8,000		14,450	
Bad debts	6,120		47,874	
Legal and professional	5,804		22,192	
Bank charges	2,907		3,595	
Depreciation	82,620		259,786	
Profit on disposal of fixed assets			(2,224)	
Intercompany charges received	-		(140,000)	
Intercompany charges paid	-		180,000	
Redundancy costs	35,000		-	
		<u>1,362,927</u>		<u>3,992,617</u>
Operating loss		(24,380)		(54,303)
Interest receivable and similar income				
Bank interest received		3,204		41
Interest payable and similar charges				
Bank interest	6,046		31,449	
Bank loan interest	-		1,051	
Other interest	3,305		2,811	
Hire purchase interest	1,713		6,862	
Inter company loan interest	23,137		-	
		<u>(34,201)</u>		<u>(42,173)</u>
Loss for the period		<u>(55,377)</u>		<u>(96,435)</u>